

Message Text

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RSC-01 CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02

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DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, GW

SUBJECT: BUNDESBANK PRESIDENT KLASSEN CONSIDERS DM DEVALUATION
POSSIBLE; EMMINGER ON INTERNATIONAL MONETARY REFORM

1. IN A FEBRUARY 3 TV INTERVIEW, BUNDESBANK PRESIDENT KLASSEN STATED THAT THE BUNDESBANK WOULD UNDER CURRENT CONDITIONS CONTINUE TO GIVE PRIORITY TO STABILITY. HE CONTINUED THAT "IN THE INTEREST OF MAINTAINING STABILITY, A DEVALUATION OF THE DEUTSCHEMARK MAY ALSO COME INTO QUESTION IF INCREASING WAGES AND ENERGY COSTS WOULD ENDANGER GERMAN EXPORT INDUSTRIES". KLASSEN, HOWEVER, ADDED THAT SUCH A MEASURE MAY NOT HAVE TO BE TAKEN "SINCE IN RECENT YEARS EXPERIENCE HAS SHOWN THAT COMMON SENSE HAS SUCCEEDED IN GERMANY".

2. ACCORDING TO DIE WELT, IN A SPEECH AT THE PARIS INSTITUT D'ETUDE POLITIQUES BUNDESBANK VICE PRESIDENT EMMINGER STATED THAT
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PREPARATIONS FOR A REFORM OF THE INTERNATIONAL MONETARY SYSTEM

HAVE BECOME OBSOLETE DUE TO THE ENERGY CRISIS. IN GLANCING BACK, ONE SHOULD BE RELIEVED THAT THE GROUP OF TWENTY HAS REACHED NO AGREEMENT SINCE THE ASPIRED NEW SYSTEM OF FIXED BUT ADJUSTABLE EXCHANGE RATES WOULD HAVE BROKEN DOWN "UNDER THE STORMS OF THE LAST MONTHS". EMMINGER FELT THAT, DUE TO THE EXTREME UNCERTAINTIES CREATED BY THE OIL CRISIS, IT MAY HAVE TO BE EXPECTED THAT THE MAJOR CURRENCIES WILL FLOAT "FOR A RATHER LONG PERIOD OF TIME". THEREFORE, PRIORITY SHOULD BE GIVEN TO THE ESTABLISHMENT OF COMMON RULES TO PREVENT MANIPULATED FLOATING. EMMINGER DID NOT BELIEVE THAT THE INTRODUCTION OF THE FRENCH FLOAT WOULD RESULT IN A DEVALUATION RACE.

3. EMMINGER EXPRESSED DOUBT WITH REGARD TO EC COMMISSIONER HAVERKAMP'S PROPOSAL TO AUTHORIZE SETTLEMENT IN GOLD AT FREELY ARRANGED PRICES IN THE EUROPEAN MONETARY FUND. EMMINGER WAS SCEPTICAL NOT ONLY IN VIEW OF THE INSTABILITY OF THE FREE GOLD MARKET BUT ALSO SINCE THIS PROPOSAL WOULD NOT SOLVE THE PROBLEM OF BALANCE OF PAYMENTS DEFICITS VIS-A-VIS THE ARAB OIL COUNTRIES. EMMINGER ASKED: "AT WHICH PRICES WOULD THESE COUNTRIES BE WILLING TO ACCEPT GOLD?" HE CONSIDERED A BETTER CONTROL OF THE EURO DOLLAR MARKET TO BE OF PRIMARY IMPORTANCE SINCE A LARGE PART OF ARAB BALANCE OF PAYMENTS SURPLUSES (ESTIMATED BY HIM TO REACH \$32-50 BILLION IN 1974) WOULD BE ATTRACTED BY THAT MARKET. THIS WOULD RESULT IN A SUBSTANTIAL INCREASE IN LIQUIDITY. IN ORDER TO LIMIT THE RISK OF NEW MONETARY CRISES, THE OIL CONSUMER COUNTRIES WOULD HAVE NO OTHER CHOICE THAN TO REACH AN ARRANGEMENT WITH THE OIL PRODUCING COUNTRIES ON THEIR INVESTMENT POLICIES.

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